

Ask an Economist

Economic Update with Robert Eyler, PhD

May 18, 2020 Webinar



Robert Eyler, PhD

President, Economic Forensics and Analytics
Professor, Economics, Sonoma State University
eyler@econforensics.com

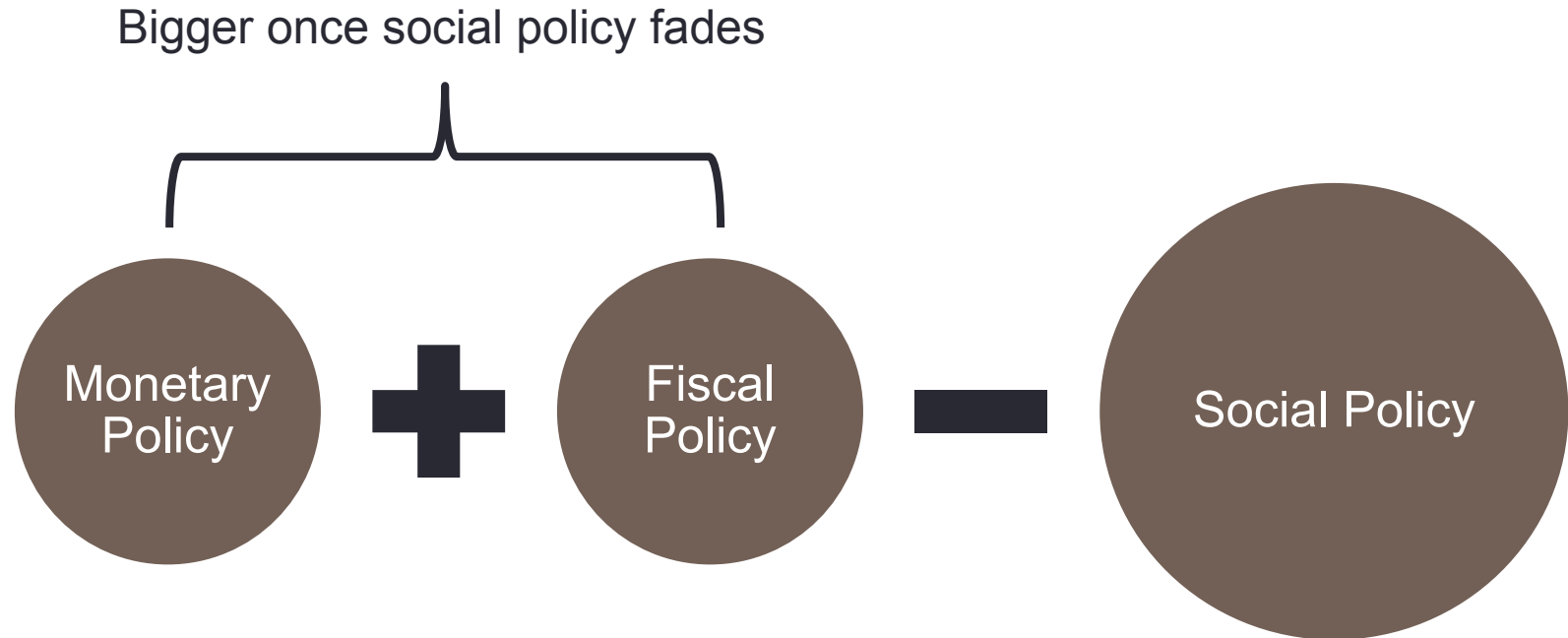


KEYSER MARSTON ASSOCIATES[®]

Agenda

- COVID-19:
 - Data reveals coming: initially bad numbers
 - Still watching jobs and connections to re-opening
- Data on Jobs and Recovery
 - Re-opening concerns: what to consider
 - Construction: a way out, need to partner
 - What do the forecasts look like?
- What to watch: Jobs data and capacity
 - Business losses the next shoe to drop
 - Policy attempting to preserve capacity

Recovery: A Tale of Three Policies



Quick Data Reminder

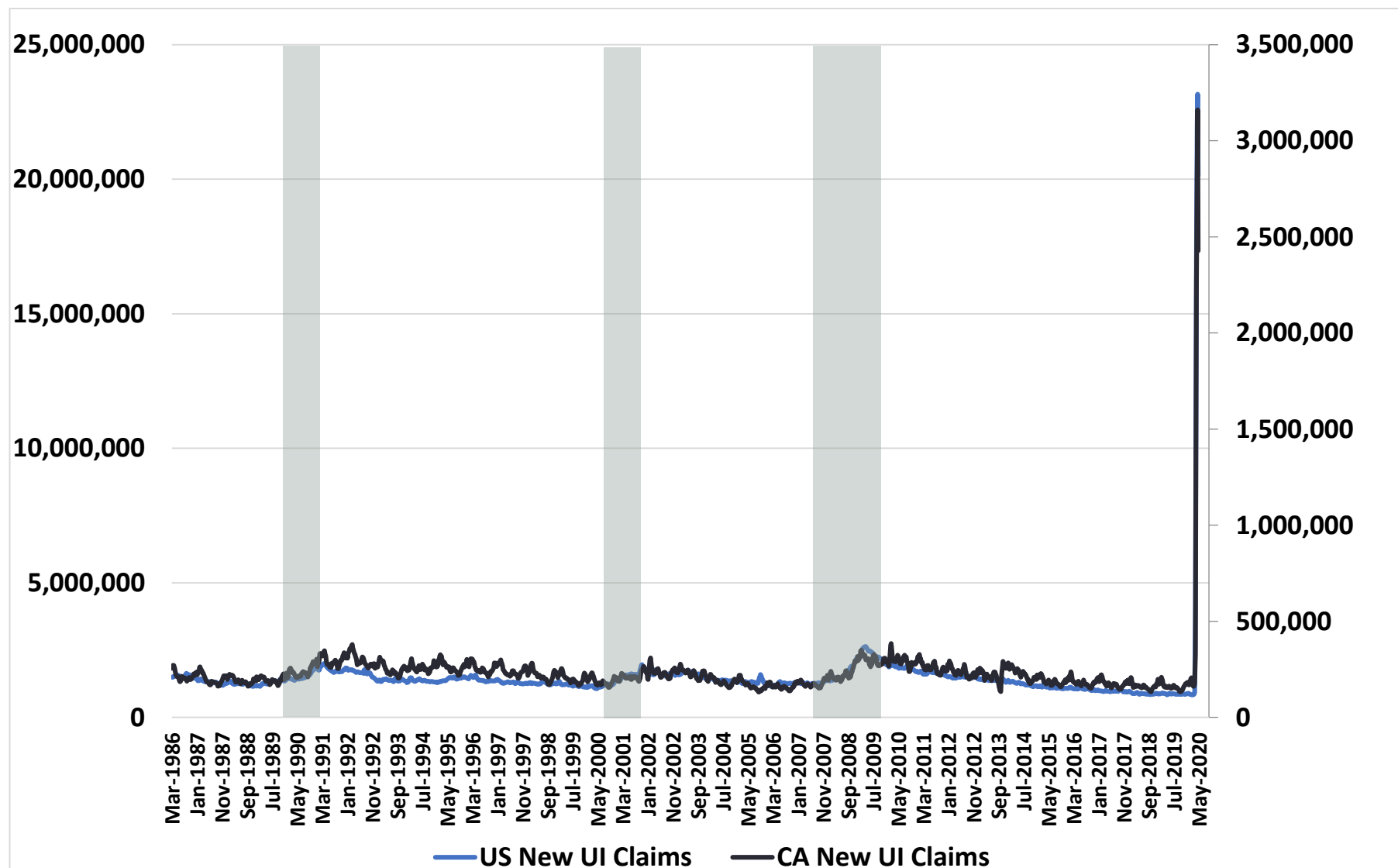
GDP

- -4.8% in Q1 2020 (1st Est)
- Consumption down
- Investment down
- Government spending up slightly
- Exports down
- Imports down (+)

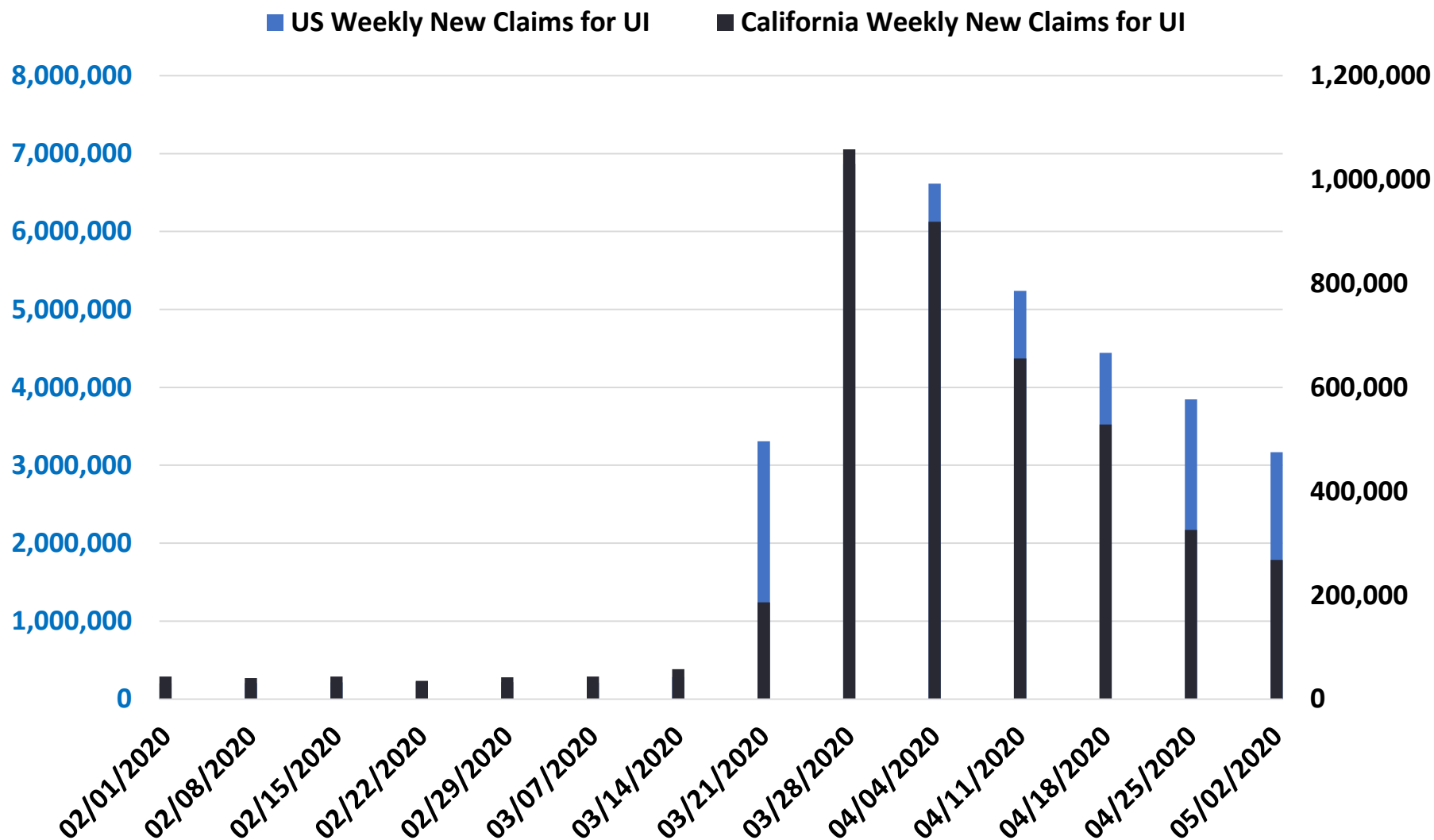
Unemployment

- 14.7% unemployment
- Job Losses mainly in leisure and hospitality, personal services, durable goods manufacturing and retail services

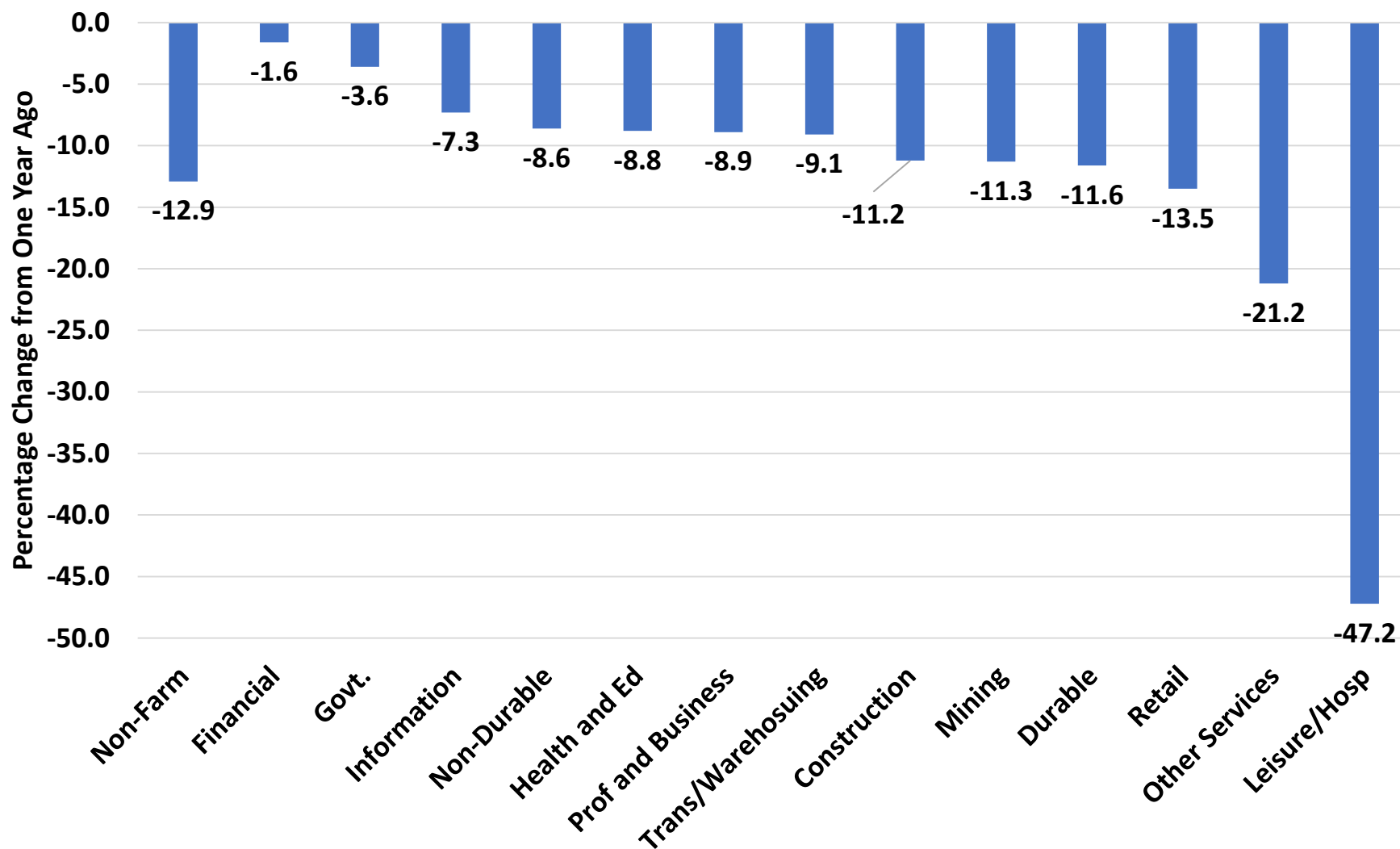
Initial Claims for Unemployment Ins, Qtr Averages of Weekly Data, 1986-April 2020, Number of Workers



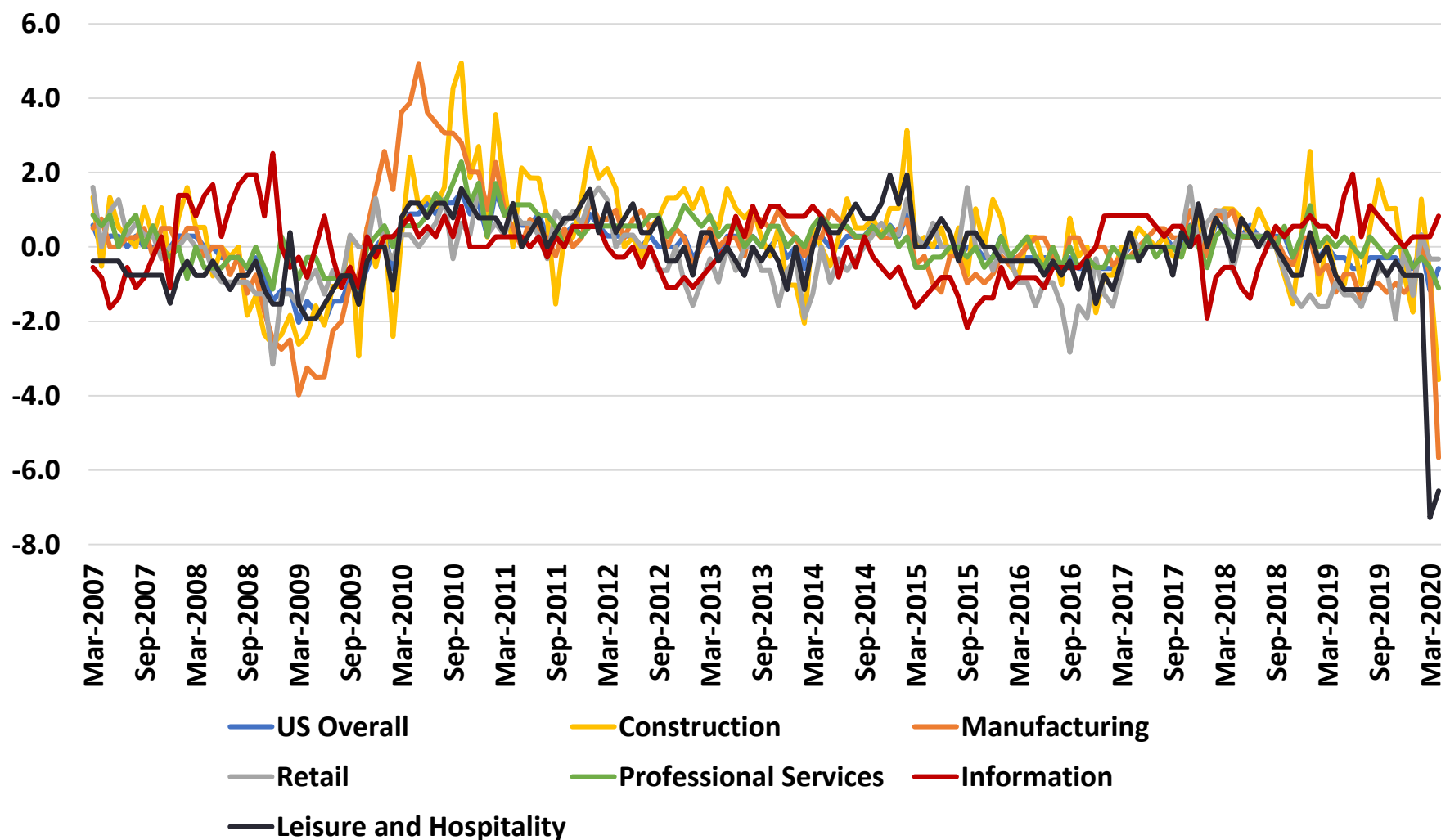
Weekly Claims: Have we already peaked? Feb – May 2020



US Jobs Lost (% Change from Previous Year), in April 2020 and Jan 2010



Average Hours Worked, US, March 2007 to April 2020, % Change from Previous Year



Housing Forecast Round-Up

- ZillowTM very optimistic
- Fannie Mae, Freddie Mac less optimistic on national level
- Forecast for limited price growth makes some sense:
 - High relative prices in place;
 - Mix of suburban and rural;
 - Jobs likely in flux locally through 2020, thus mixed bag on demand;
 - Construction likely slower to reduce increase in new units; and
 - Rates to remain low through 2021

National Assoc of Business Economists, April 2020



	Real Gross Domestic Product % change, annual rate			Civilian Unemployment Rate %, quarterly average		
	Full Sample Median	Five Lowest	Five Highest	Full Sample Median	Five Lowest	Five Highest
Q1-20	-2.4	-7.7	1.0	3.8a	—	—
Q2-20	-26.5	-50.0	-1.0	12.0	6.4	20.0
Q3-20	2.0	-12.6	20.7	10.5	5.9	17.3
Q4-20	5.8	0.0	23.6	9.5	4.5	18.0
Q1-21	6.0	2.1	15.7	8.0	4.1	15.0
Q2-21	4.5	2.1	13.1	7.4	4.0	13.4
Q3-21	3.8	2.0	8.0	6.6	3.9	12.0
Q4-21	2.9	1.1	6.3	6.0	3.7	10.4

a = actual

Philadelphia Fed Survey of Forecasters



Source: Philadelphia Federal Reserve Branch

Median Forecasts for Selected Variables in the Current and Previous Surveys						
	Real GDP (%)		Unemployment Rate (%)		Payrolls (000s/month)	
	Previous	New	Previous	New	Previous	New
<i>Quarterly data:</i>						
2020:Q2	2.1	-32.2	3.5	16.1	168.6	-7,647.8
2020:Q3	2.0	10.6	3.5	12.9	132.8	2,328.9
2020:Q4	2.1	6.5	3.6	11.0	116.7	900.9
2021:Q1	2.2	6.8	3.6	9.3	114.5	514.9
2021:Q2	N.A.	4.1	N.A.	8.8	N.A.	739.1
<i>Annual data (projections are based on annual-average levels):</i>						
2020	2.0	-5.6	3.6	10.8	168.5	-933.3
2021	2.0	3.1	3.6	8.1	125.2	314.4
2022	2.0	4.1	3.7	6.2	N.A.	N.A.
2023	2.0	2.2	3.9	5.1	N.A.	N.A.

Depth and Duration

The Federal Reserve

- Unemployment may peak in coming months, but both Congress and the Fed must take seriously the threat of a prolonged recession lasting some years.
- The Fed has ruled out "negative interest rates"
- **Nearly 40 percent of households employed in February earning less than \$40,000 a year lost a job in March or April**
- From PIIIE webinar on May 13

CA Dept of Finance Forecast, Jobs in California, Year End 2020-2023

Industry	2020	2021	2022	2023
Civilian Labor Force	-0.3%	0.0%	0.3%	0.6%
Civilian Employment	-17.5%	-13.1%	-11.3%	-6.5%
Farm Employment	-3.4%	-4.0%	-3.9%	-2.7%
Non-Farm Payroll Employment	-17.2%	-12.7%	-10.6%	-6.2%
Construction	-17.6%	-27.7%	-19.2%	-13.9%
Machinery, Computers and Transportation	-22.8%	-16.3%	-15.8%	-10.3%
Food, Textiles and Other Manufacturing	-7.8%	-6.2%	-5.2%	-2.3%
Retail Trade	-32.0%	-23.6%	-22.4%	-15.0%
Wholesale Trade and Utilities	-29.7%	-21.2%	-18.7%	-8.6%
Transport and Warehousing	-1.8%	2.9%	8.1%	15.0%
Information	-9.0%	-3.0%	2.9%	9.4%
Financial Activities	-9.8%	-7.0%	-6.0%	-2.0%
Professional, Scientific, Tech Services & Mgt.	-8.9%	-4.5%	-1.9%	1.8%
Administrative, Waste Mgt and Remediation	-42.6%	-33.6%	-30.9%	-26.8%
Educational Services	-4.0%	0.1%	3.6%	9.1%
Health Services	5.3%	6.3%	7.5%	9.0%
Leisure and Hospitality	-46.9%	-35.5%	-33.9%	-27.8%
Other Services	-46.3%	-34.5%	-34.0%	-27.6%
Government	0.3%	0.5%	1.4%	1.9%

State of CA Revenues: The Causes

General Fund Revenue Sources

(Dollars in Millions)

	2019-20	2020-21	Change from 2019-20	
			Dollar Change	Percent Change
Personal Income Tax	\$94,773	\$76,841	-\$17,932	-18.9%
Sales and Use Tax	24,941	20,613	-4,328	-17.4%
Corporation Tax	13,870	16,577	2,707	19.5%
Insurance Tax	3,052	2,986	-66	-2.2%
Alcoholic Beverage Taxes and Fees	385	389	4	1.0%
Cigarette Tax	58	56	-2	-3.4%
Motor Vehicle Fees	31	40	9	29.0%
Other	1,887	12,109	10,222	541.7%
Subtotal	\$138,997	\$129,611	-\$9,386	-6.8%
Transfer to/from the Budget Stabilization Account/Rainy Day Fund	-2,160	7,806	9,966	-461.4%
Total	\$136,837	\$137,417	\$580	0.4%

Note: Numbers may not add due to rounding.

State of CA Revenues Revenues: More Details

2020-21 Revenue Sources (Dollars in Millions)

	General Fund	Special Funds	Total	Change From 2019-20
Personal Income Tax	\$76,841	\$1,874	\$78,715	-\$18,534
Sales and Use Tax	20,613	10,025	30,638	-4,614
Corporation Tax	16,577	-	16,577	2,707
Highway Users Taxes	-	8,124	8,124	324
Insurance Tax	2,986	-	2,986	-66
Alcoholic Beverage Taxes and Fees	389	-	389	4
Cigarette Tax	56	1,848	1,904	-21
Motor Vehicle Fees	40	10,004	10,044	586
Other	12,109	20,366	32,475	4,200
Subtotal	\$129,611	\$52,241	\$181,852	-\$15,414
Transfer to/from the Budget	7,806	-7,806	-	-
Stabilization Account/Rainy Day Fund				
Total	\$137,417	\$44,435	\$181,852	-\$15,414

Note: Numbers may not add due to rounding.

State of CA Revenues

Expenditures: The Effects

General Fund Expenditures by Agency

(Dollars in Millions)

	2019-20	2020-21	Change from 2019-20	
			Dollar Change	Percent Change
Legislative, Judicial, Executive	\$6,848	\$4,144	-\$2,704	-39.5%
Business, Consumer Services & Housing	1,262	291	-971	-76.9%
Transportation	289	239	-50	-17.3%
Natural Resources	3,771	3,547	-224	-5.9%
Environmental Protection	723	42	-681	-94.2%
Health and Human Services	41,920	45,275	3,356	8.0%
Corrections and Rehabilitation	13,444	13,351	-93	-0.7%
K-12 Education	54,578	47,689	-6,889	-12.6%
Higher Education	17,041	15,372	-1,669	-9.8%
Labor and Workforce Development	186	159	-27	-14.5%
Government Operations	2,331	1,329	-1,002	-43.0%
General Government:				
Non-Agency Departments	1,076	911	-165	-15.3%
Tax Relief/Local Government	505	432	-73	-14.5%
Statewide Expenditures	2,523	1,120	-1,403	-55.6%
Total	\$146,497	\$133,901	-\$12,596	-8.6%

Note: Numbers may not add due to rounding.

Part IV: Municipal Budgets

- County and City Budgets
 - Both depend on indirect flows from federal and state sources
 - Both utilize indirect flows to provide services at local level
 - Differences
 - Sales tax percentages
 - Personal income tax
 - Transient Occupancy Tax (TOT): for tourism areas, this is a key, local revenue source with taxable sales tied to it
 - Other taxes: including general services taxes and health taxes
 - **All based on consumption**
- **Economic and workforce development**
 - Can easily lose sight of importance of workforce prep and transition and connection to businesses

Economic Development Opportunities and Municipal Partnerships

- Malls
 - Logistics and Warehousing: do our malls become a mix of smaller shops and medium-sized warehousing?
 - Small, pop-up restaurants using interior space as physical distancing opportunities (Berkeley, e.g.)
- Zoning reconsidered
 - Will we use housing the same ever again?
 - Can office become co-working for hybrid workers and potentially fill long-vacant space?
- Partner on construction
 - Keep projects moving that should not be help up
 - Economic impacts can be suppressed by slow movements

What to Watch

- Labor market changes
 - Initial claims for unemployment insurance
 - **Now at 36 million people in US in last eight weeks**
 - **CA at 3.8 million people in last seven weeks**
 - Average hours worked and continued claims key
- Epidemiology: getting closer?
- Policy: the lift is coming...but
 - How well will business adapt?
 - What businesses will survive?
 - What can economic development do?

Thanks for attending.

A recording of this webinar will be posted at
chabinconcepts.com



Robert Eyler, PhD
eyler@econforensics.com
Twitter: @bobby7007



chabinconcepts.com
audrey@chabinconcepts.com
530.345-0364 ext. 27



KEYSER MARSTON ASSOCIATES.

keysermarston.com
dkern@keysermarston.com
415.398.3050